

Wexford County
Department of Public Works,
Sanitary Landfill Enterprise
(a fund of the County of Wexford, Michigan)

Financial Report
December 31, 2003

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Contents

Report Letter	I
Financial Statements	
Statement of Net Assets	2
Statement of Revenue, Expenses, and Changes in Net Assets - Budget and Actual	3
Statement of Cash Flows	4
Notes to Financial Statements	5-13



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Public Works
Wexford County
Cadillac, Michigan

We have audited the basic financial statements of Wexford County, Michigan as of December 31, 2003 and for the year then ended and have issued our report thereon dated May 6, 2004. Those basic financial statements are the responsibility of the management of Wexford County, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Wexford County, Michigan taken as a whole. The accompanying financial statements of the Wexford County Department of Public Works, Sanitary Landfill Enterprise are presented for the purpose of additional analysis and are not a required part of Wexford County, Michigan's basic financial statements. The accompanying financial statements of the Wexford County Department of Public Works, Sanitary Landfill Enterprise have been subjected to the auditing procedures applied in the audit of the County's basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the County's basic financial statements taken as a whole.

As discussed in Note 10, as of January 1, 2003, the County implemented the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Plante & Moran, PLLC

May 6, 2004



A worldwide association of independent accounting firms

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Statement of Net Assets December 31, 2003

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 1,496,447
Investments (Note 2)	11,786,189
Accounts receivable	<u>188,112</u>

Total current assets 13,470,748

Noncurrent assets:

Restricted assets (Note 3)	1,294,537
Capital assets - Net (Note 4)	<u>3,592,265</u>

Total noncurrent assets 4,886,802

Total assets 18,357,550

Liabilities

Current liabilities:

Accounts payable	431,282
Accrued payroll and other liabilities	15,461
Current portion of capital leases (Note 8)	<u>98,752</u>

Total current liabilities 545,495

Noncurrent liabilities:

Capital leases - Net of current portion (Note 8)	562,327
Estimated liability for landfill closure and postclosure costs (Note 3)	<u>4,889,856</u>

Total noncurrent liabilities 5,452,183

Total liabilities 5,997,678

Net Assets

Invested in capital assets - Net of related debt	2,931,186
Unrestricted	<u>9,428,686</u>

Total net assets \$ 12,359,872

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Statement of Revenue, Expenses, and Changes in Net Assets Budget and Actual Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenue			
Charges for service	\$ 2,321,264	\$ 2,384,584	\$ 63,320
Other revenue	4,500	8,206	3,706
Total operating revenue	2,325,764	2,392,790	67,026
Operating Expenses			
Salaries and wages	275,881	275,882	(1)
Employee fringe benefits	117,870	117,870	-
Office supplies	4,451	4,451	-
Operating supplies	50,782	50,782	-
Legal and professional fees	18,142	18,142	-
Insurance and bonds	28,675	28,675	-
Leachate treatment	448,263	448,263	-
Laboratory services	42,429	42,429	-
Engineering	530,271	645,670	(115,399)
Utilities	64,774	64,774	-
Travel expenses	1,843	1,843	-
Publications	791	790	1
Computer services	2,825	2,825	-
Repairs and maintenance	123,319	122,099	1,220
Groundwater remediation	26,985	26,985	-
Equipment lease	108,390	-	108,390
Capital asset activity:			
Capital outlay	284,822	-	284,822
Depreciation expense	220,102	329,739	(109,637)
Waste management fees	64,390	64,390	-
Landfill closure and postclosure costs	-	651,971	(651,971)
Bad debt expense	-	112,302	(112,302)
Miscellaneous expense	13,429	13,429	-
Total operating expenses	2,428,434	3,023,311	(594,877)
Operating Loss	(102,670)	(630,521)	(527,851)
Nonoperating Income (Loss)			
Interest earnings	275,000	256,077	(18,923)
Bond interest expense	-	(31,053)	(31,053)
Total nonoperating income	275,000	225,024	49,976
Income (Loss) - Before operating transfers	172,330	(405,497)	577,827
Other Financing Sources (Uses)			
Operating transfers in	34,979	34,979	-
Operating transfers out	(557,311)	(557,311)	-
Total other financing sources (uses)	(522,332)	(522,332)	-
Change in Net Assets	(350,002)	(927,829)	577,827
Net Assets - January 1, 2003	13,287,701	13,287,701	-
Net Assets - December 31, 2003	<u>\$ 12,937,699</u>	<u>\$ 12,359,872</u>	<u>\$ 577,827</u>

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Statement of Cash Flows Year Ended December 31, 2003

Cash Flows from Operating Activities

Receipts from customers	\$ 2,304,333
Payments to suppliers	(1,161,347)
Payments to employees	<u>(389,521)</u>
Net cash provided by operating activities	753,465

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(187,118)
Principal and interest paid on capital debt	<u>(110,593)</u>
Net cash used in capital and related financing activities	(297,711)

Cash Flows from Noncapital and Related Financing Activities

Internal activity - Payments from other funds	34,979
Internal activity - Payments to other funds	<u>(557,311)</u>
Net cash used in noncapital and related financing activities	(522,332)

Cash Flows from Investing Activities

Interest received on investments	256,077
Proceeds from the sale and maturities of investment securities	(18,597,017)
Purchase of investment securities	<u>19,284,277</u>
Net cash provided by investing activities	<u>943,337</u>

Net Increase in Cash 876,759

Cash - January 1, 2003 619,688

Cash - December 31, 2003 \$ 1,496,447

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating loss	\$ (630,521)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	(88,457)
Depreciation	329,739
Accounts payable	1,138,473
Accrued and other liabilities	<u>4,231</u>
Net cash provided by operating activities	<u><u>\$ 753,465</u></u>

Wexford County Department of Public Works, Sanitary Landfill Enterprise

**Notes to Financial Statements
December 31, 2003**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Wexford County Department of Public Works, Sanitary Landfill Enterprise (the "System") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The System is operated by Wexford County, Michigan (the "County") and is included in the County's basic financial statements as an Enterprise Fund. The following is a summary of the significant accounting policies:

Reporting Entity - The System operates, maintains, and accounts for the County's sanitary landfill.

Basis of Accounting - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards used after November 30, 1989.

Cash Equivalents - For the purpose of the statement of cash flows, the Proprietary Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Receivables - All trade receivables are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited properties, which assures their eventual collection.

Inventories - Inventories held by the System are not considered material and are not included in these financial statements.

Capital Assets - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. The assets of the System consist of equipment items used to run the System. Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis.

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

The deposits and investments of the System are classified on the balance sheet as follows:

Cash	\$ 1,496,447
Investments	11,786,189
Restricted assets (Note 3)	<u>1,294,537</u>
Total	<u>\$ 14,577,173</u>

The above amounts are classified by the Governmental Accounting Standards Board Statement No. 3 in the following categories:

	Balance Sheet Classification			Total
	Cash	Investments	Restricted Assets	
Deposits (checking accounts and certificates of deposit)	\$ 1,496,447	\$ 5,904,584	\$ 280,000	\$ 7,681,031
Investments	<u>-</u>	<u>5,881,605</u>	<u>1,014,537</u>	<u>6,896,142</u>
Total	<u>\$ 1,496,447</u>	<u>\$ 11,786,189</u>	<u>\$ 1,294,537</u>	<u>\$ 14,577,173</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$7,681,031. Of that amount, up to \$300,000 was covered by federal depository insurance. The insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the System, if any, is not determinable. Of the proceeding deposit amounts, therefore, the uninsured and uncollateralized portions totaled at least \$7,381,031.

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 2 - Deposits and Investments (Continued)

The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all of the bank deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The County is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, and investment pools that are composed of authorized investment vehicles. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 2003. Risk Category 1 investments are held by the counterparty's trust department (or agent) in the County's name and include those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the County or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the County's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the County's name

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 2 - Deposits and Investments (Continued)

	Carrying Value (Fair Value)
U.S. government securities (Category 2)	\$ 5,780,906
Bank investment pools	76
Interlocal agreement investment pools	1,114,829
Mutual funds	331
Total	<u>\$ 6,896,142</u>

The bank investment pools, mutual funds, and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book-entry form. Management believes that the investments in the funds comply with the investment authority noted above.

To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Included in the County's investments at the balance sheet date are approximately \$3,072,000 of obligations of the Federal National Mortgage Association, \$200,000 of obligations of the Government National Mortgage Association, and approximately \$1,480,000 of obligations of the Federal Home Loan. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 3 - Restricted Assets

The System's restricted assets are comprised of the following:

Investments restricted for landfill bonding	\$ 280,000
Investments restricted for perpetual care	<u>1,014,537</u>
Total restricted assets	<u>\$ 1,294,537</u>

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 3 - Restricted Assets (Continued)

The investments restricted for landfill bonding consist of an irrevocable letter of credit to the Michigan Department of Natural Resources in the amount of \$280,000 for the bonding of the Wexford County Sanitary Landfill. Certificates of deposit in the amount of \$280,000 were pledged and assigned to Citizens Bank as security for any draws on the letter of credit. The annual fee for the letter of credit is 1 percent.

The investments restricted for perpetual care consist of funds set aside for closure, monitoring, and maintenance of the landfill and for response activity necessitated by potential contamination discharge from the landfill.

The operator of the landfill is required to designate a custodian of the fund and deposit amounts into the fund based on the volume and the type of material disposed of in the landfill. The custodian is not to disburse any amount of the fund to the operator of the landfill without the approval of the director of the Department of Natural Resources.

Thirty years after the closure of the landfill, 50 percent of any money in the Perpetual Care Fund may be returned to the operator.

To comply with this act, the landfill contracted with the director of the Department of Natural Resources to establish a perpetual care fund with Bank One Trust Company as the designated custodian. The landfill has begun to make the required deposits into a separate savings account until the contract with the Department of Natural Resources is completed. The perpetual care fund's balance at December 31, 2003 was \$1,014,537.

Landfill - Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$4,889,856 reported as landfill closure and postclosure care liability at December 31, 2003 represents the cumulative amount reported to date based on the use of approximately 69 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of approximately \$2,200,000 as the remaining estimated capacity is filled.

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 3 - Restricted Assets (Continued)

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County expects that future costs, including inflation and changes in technology or applicable laws and regulations, will be paid from cash and investments maintained in the Sanitary Landfill Enterprise Fund as well as charges to future landfill users.

Note 4 - Capital Assets

The System's capital assets are composed of the following:

	Balance January 1, 2003	Additions	Balance December 31, 2003	Useful Life - Years
Capital assets being depreciated:				
Land	\$ 97,806	\$ -	\$ 97,806	-
Building and improvements	19,869	107,293	127,162	7-40
Site improvements	3,441,641	64,371	3,506,012	4-40
Vehicles	387,844	-	387,844	5-7
Machinery and equipment	235,449	744,397	979,846	5-10
Office furniture and fixtures	48,403	11,676	60,079	5-7
Total	4,231,012	927,737	5,158,749	
Accumulated depreciation:				
Building and improvements	(14,186)	(406)	(14,592)	
Site improvements	(875,774)	(96,475)	(972,249)	
Vehicles	(174,211)	(54,286)	(228,497)	
Machinery and equipment	(144,977)	(172,177)	(317,154)	
Office furniture and fixtures	(27,597)	(6,395)	(33,992)	
Total accumulated depreciation	(1,236,745)	(329,739)	(1,566,484)	
Net capital assets being depreciated	<u>\$ 2,994,267</u>	<u>\$ 597,998</u>	<u>\$ 3,592,265</u>	

Depreciation expense is calculated on the straight-line method over the estimated useful lives as indicated above.

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 5 - Postemployment Benefits

The County provides health care benefits to all full-time employees upon retirement. The cost associated with this benefit is charged to the County's self-insurance fund when incurred. Currently, two retirees are eligible. The County includes pre-Medicare retirees and their dependents in its insured health care plan. The County charges the retirees a monthly fee to participate. During the year ended December 31, 2003, the County collected approximately \$3,800 from retirees.

Note 6 - Defined Benefit Pension Plan

The County's employees who operate the System are covered by a defined benefit pension plan. Complete information about the plan can be found in the County's general purpose financial statements. Annual pension expense allocated to the System amounted to approximately \$15,600 for the year ended December 31, 2003.

Note 7 - Risk Management

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The System participates in the County's risk management program. The County has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management Authority that the Michigan Municipal Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Detailed information concerning estimates of liability for claims is provided in the County's basic financial statements.

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 8 - Long-term Debt

Outstanding Debt - The following is a summary of the System's long-term debt and transactions for the year ended December 31, 2003:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases:							
2003 Caterpillar							
Amount of issue - \$180,168		\$1,774 -					
Maturing through 2008	4.00%	\$2,151	\$ -	\$ 180,168	\$ (19,465)	\$ 160,703	\$ 22,487
2003 Caterpillar							
Amount of issue - \$251,443		\$2,404 -					
Maturing through 2007	4.00%	2,888	-	251,443	(21,482)	229,961	30,185
2003 Caterpillar							
Amount of issue - \$306,804		\$3,647 -					
Maturing through 2008	4.00%	\$69,470	-	306,804	(36,389)	270,415	46,080
Total capital leases			\$ -	\$ 738,415	\$ (77,336)	\$ 661,079	\$ 98,752

Annual debt service requirements to maturity for the above capital leases are as follows:

	Principal	Interest	Total
2004	\$ 98,752	\$ 24,585	\$ 123,337
2005	102,775	20,562	123,337
2006	106,962	16,375	123,337
2007	111,320	12,017	123,337
2008	241,270	1,676	242,946
Total	\$ 661,079	\$ 75,215	\$ 736,294

Note 9 - Budget

The State's Budget Act does not require a formal budget to be adopted for Enterprise Funds. However, an annual budget is adopted and is included in these financial statements for management control purposes.

Wexford County Department of Public Works, Sanitary Landfill Enterprise

Notes to Financial Statements December 31, 2003

Note 9 - Budget (Continued)

Generally, the budget is prepared on a modified accrual basis to facilitate management control. An exception to this is depreciation expense, which is budgeted based on assets on hand at the beginning of the year. After the fiscal year is completed, newly acquired assets are added to the depreciation schedule and depreciation expense is adjusted, causing the unfavorable variance.

In accordance with GASB Statement No. 18, the System is accruing closure and postclosure costs based on utilization of landfill capacity. The accrual is based on engineering and accounting estimates and generally does not result in current expenditures of cash.

Note 10 - Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The County has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The County has elected to implement the general provisions of the statement. There were no significant changes to the System's financial statements.